

# IRAs Compared

There are substantial differences between a traditional (nondeductible) IRA, a traditional (deductible) IRA, and a Roth IRA.

Item	Traditional IRA (Nondeductible)	Traditional IRA (Deductible)	Roth IRA
<b>Basic eligibility requirements</b>	Any person of any age who has compensation.	Any person of any age who has compensation.	Any person of any age who has compensation. <sup>1</sup>
<b>Maximum contribution</b>	Generally, the lesser of \$6,000 <sup>2</sup> (\$12,000 <sup>3</sup> for a married couple) or 100% of compensation. <sup>4</sup>		
<b>Is the contribution deductible?</b>	No	Yes, if neither spouse is covered by a qualified plan (QP). If single and covered by a QP, contribution is deductible if modified adjusted gross income (MAGI) is less than \$68,000. Deduction phased out for MAGI between \$68,000 and \$78,000. If MFJ and one spouse is covered by a QP, the nonparticipant spouse may make a deductible contribution if MAGI is \$204,000 or less. This deduction is phased out for MAGI between \$204,000 and \$214,000. The participant spouse may make a deductible contribution if MAGI is \$109,000 or less. This deduction is phased out for MAGI between \$109,000 and \$129,000. <sup>5</sup>	No

<sup>1</sup> For 2022, the maximum contribution to a Roth IRA is phased out for single taxpayers with modified adjusted gross income (MAGI) between \$129,000 and \$144,000. For married couples filing jointly, the phase-out range is a MAGI of \$204,000 to \$214,000. For married individuals filing separately, the phase-out range is a MAGI of \$0 to \$10,000.

<sup>2</sup> This amount applies to 2022. For 2021, the maximum allowable contribution was also \$6,000.

<sup>3</sup> This amount applies to 2022. For 2021, the maximum allowable contribution was also \$12,000.

<sup>4</sup> If an IRA owner is age 50 or older, he or she may contribute an additional \$1,000 (\$2,000 if the spouse is also over 50).

<sup>5</sup> These are 2022 limits. For 2021 the phase-out ranges were (1) MFJ - MAGI of \$105,000 - \$125,000; (2) Single - \$66,000 - \$76,000. For taxpayers using the MFS filing status, the phase-out range is \$0 - \$10,000, which does not change.

## IRAs Compared

Item	Traditional IRA (Nondeductible)	Traditional IRA (Deductible)	Roth IRA
<b>Are earnings currently taxed?</b>	No	No	No
<b>Taxation of withdrawals at death or disability<sup>1</sup></b>	Contributions are received tax-free and earnings are taxable.	All distributions are taxable.	No taxation of qualified distributions.
<b>Taxation of \$10,000 withdrawn for first-time home purchase<sup>1</sup></b>	Proportionate part attributable to earnings is taxable.	All \$10,000 subject to income tax.	“Qualified” distributions are not subject to tax. The earnings portion of a “non-qualified” distribution is taxable at ordinary rates. <sup>2</sup>
<b>Taxation of withdrawals to pay for deductible medical expenses, e.g., expenses in excess of 7.5% of adjusted gross income (AGI)</b>	Proportionate part attributable to earnings taxed as ordinary income. For those under age 59½, 10% penalty does not apply to amounts that qualify as deductible medical expenses, e.g., amounts in excess of 7.5% of AGI.	Entire withdrawal taxable as ordinary income. For those under age 59½, 10% penalty does not apply to amounts that qualify as deductible medical expenses, e.g., amounts in excess of 7.5% of AGI.	“Qualified” distributions are not subject to tax. The earnings portion of a “non-qualified” distribution is taxable at ordinary rates. <sup>2</sup>
<b>Taxation of withdrawals to pay for qualified higher education expenses<sup>1</sup></b>	Proportionate part attributable to earnings is taxable.	Entire withdrawal is subject to income tax.	“Qualified” distributions are not subject to tax. The earnings portion of a “non-qualified” distribution is taxable at ordinary rates. <sup>2</sup>

<sup>1</sup> For individuals under age 59½, the 10% penalty tax does not apply in these situations.

<sup>2</sup> Generally, a “qualified” distribution is one made at least five years after a contribution is first made to a Roth IRA and because the owner reaches age 59½, dies, becomes disabled, or uses the funds to pay for first-time homebuyer expenses.

## IRAs Compared

Item	Traditional IRA (Nondeductible)	Traditional IRA (Deductible)	Roth IRA
<b>Taxation of distributions not covered above<sup>1</sup></b>	Nondeductible contributions received tax-free. Earnings are taxed at ordinary rate.	All distributions are taxable at ordinary rates.	“Qualified” distributions are not subject to tax. The earnings portion of a “non-qualified” distribution is taxable at ordinary rates. <sup>2</sup>
<b>Are there required minimum distributions (RMDs)?</b>	Distributions must start by April 1 of the year following the year the account owner reaches age 72 <sup>3</sup> .	Distributions must start by April 1 of the year following the year the account owner reaches age 72 <sup>3</sup> .	No minimum distribution is required during the life of owner.
<b>Are direct transfers of funds in an IRA to a Health Savings Account allowed?</b>	Yes	Yes	Yes
<b>By when must an IRA be set up and funded?</b>	By the due date for filing the IRA owner’s federal income tax return for the year of the contribution, generally April 15 of the following year.		
<b>Federal bankruptcy protection</b>	Federal bankruptcy law protects assets in all IRAs, up to \$1,362,800. Funds rolled over from qualified plans are protected without limit. State law may vary.		
<b>May federal income tax refunds be directly deposited into the IRA?</b>	Yes	Yes	Yes
<b>Are tax-free direct transfers of up to \$100,000 to a qualified charity by an owner at least age 70½ allowed?</b>	Yes	Yes	Yes
<b>Was a “Coronavirus Related Distribution<sup>1</sup> (CRD) permitted?</b>	Yes	Yes	Yes

<sup>1</sup> All taxable amounts are subject to penalty tax of 10% if received prior to age 59½, unless an exception applies.

<sup>2</sup> Generally, a “qualified” distribution is one made at least five years after a contribution is first made to a Roth IRA and because the owner reaches age 59½, dies, becomes disabled, or uses the funds to pay for first-time homebuyer expenses.

<sup>3</sup> Applies to distributions required to be made after December 31, 2019, to individuals who reach age 70½ after that date. Under prior law, age 70½ was the mandated age for beginning RMDs.

# IRAs Compared

## Comparison of Returns from Various Types of IRAs

The table below is a hypothetical illustration of the impact of time and income taxes on the various types of IRAs.<sup>1</sup> The calculations assume that any tax savings from deductible contributions are invested in a separate, annually-taxable fund and that all funds are withdrawn in a lump sum at retirement.

### Assumptions:

- Desired net annual contribution: \$6,000
- Marginal income tax bracket – pre-retirement: 28.00%
- Marginal income tax bracket – post-retirement: 25.00%
- Tax-deferred growth rate: 7.00%
- After-tax growth rate: 5.04%
- Number of years until retirement: 20

Item	Traditional IRA (Nondeductible)	Traditional IRA (Deductible)	Roth IRA
<b>A. Pre-Retirement</b>			
1. Contributions are made	After-tax	Before-tax	After-tax
2. Gross amount	\$8,333	\$6,000	\$8,333
3. Income taxes payable	2,333	0	2,333
4. Net annual contribution to IRA	6,000	6,000	6,000
5. Annual tax savings to taxable account	0	1,680	0
<b>Total net annual savings</b>	<b>\$6,000</b>	<b>\$7,680</b>	<b>\$6,000</b>
<b>B. At Retirement</b>			
1. Net accumulation in the IRA <sup>2</sup>	\$263,191	\$263,191	\$263,191
2. Future value of tax savings	0	58,598	0
3. Total available before taxes	263,191	321,789	263,191
4. Income taxes payable	-35,798	-65,798	0
<b>Net after income taxes</b>	<b>\$227,393</b>	<b>\$255,991</b>	<b>\$263,191</b>

<sup>1</sup> Based on federal law. State or local law may differ.

<sup>2</sup> Assumes annual contributions are made at the beginning of each year.